

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Dept. of Public Works</u> <u>Wastewater Collection System</u>	County <u>Wexford</u>
Audit Date <b>12/31/04</b>	Opinion Date <b>5/19/05</b>	Date Accountant Report Submitted to State: <u>#3</u> <b>8/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	Enclosed w/ Primary Government		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>16978 S. Riley Avenue</b>	City <b>Kincheloe</b>	State <b>MI</b>	ZIP <b>49788</b>
Accountant Signature <i>Anderson Tackman &amp; Co PLC</i>		Date <b>8/8/05</b>	

COUNTY OF WEXFORD, MICHIGAN  
DEPARTMENT OF PUBLIC WORKS,  
WASTEWATER COLLECTION SYSTEM #3  
(an enterprise fund of the County of Wexford, Michigan)

Financial Report

December 31, 2004

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Public Works  
Wexford County  
Cadillac, Michigan

We have audited the accompanying financial statements of the Wastewater Collection System #3, enterprise fund of the County of Wexford, Michigan as of and for the year ended December 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the County of Wexford, Michigan's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only an enterprise fund and do not purport to, and do not, present fairly the financial position of the County of Wexford, Michigan as of December 31, 2004, and the changes in financial position and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Collection System #3, enterprise fund of the County of Wexford, Michigan as of December 31, 2004, and the changes in financial position and its cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The County has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 19, 2005

## **Financial Statements**

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**County of Wexford, Michigan**  
**Wastewater Collection System #3**

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**Statement of Net Assets**  
**December 31, 2004**

**Assets**

Current assets:

Cash (Note 2)	\$ 26,712
Accounts receivable	<u>34,500</u>

Total current assets 61,212

Noncurrent assets – Capital assets – Net (Note 3) 12,852

Total assets \$ 74,064

**Current Liabilities**

Accounts payable	158
Accrued payroll and other liabilities	<u>321</u>

Total current liabilities 479

**Net Assets**

Invested in capital assets – Net of related debt	12,852
Unrestricted	<u>60,733</u>

Total net assets \$ 73,585

**County of Wexford, Michigan**  
**Wastewater Collection System #3**

**Statement of Revenues, Expenses,  
and Changes in Net Assets  
Year Ended December 31, 2004**

**Operating Revenue**

Charges for Services - Service Billings and Construction	\$ 122,993
Total Operating Revenue	<u>122,993</u>

**Operating Expenses**

Salaries and Wages	21,857
Employee Fringe Benefits	11,186
Office Supplies	336
Operating Supplies	1,878
Repairs and Maintenance	694
Engineering Services	3,953
Insurance	1,816
Utilities	1,836
Meter Sewage - Haring Township	50,647
Miscellaneous Expense	<u>268</u>

Total Operating Expenses Before Depreciation	<u>94,471</u>
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Operating Income Before Depreciation	28,522
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Depreciation	<u>3,441</u>
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Operating Income	<u>25,081</u>
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**Nonoperating Income**

Interest Earnings	268
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**Other Financing Sources (Uses)**

Operating Transfers (Out)	<u>(9,875)</u>
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<b>Increase in Net Assets</b>	15,474
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<b>Net Assets - January 1, 2004</b>	<u>58,111</u>
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<b>Net Assets - December 31, 2004</b>	<u><u>\$ 73,585</u></u>
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**County of Wexford, Michigan**  
**Wastewater Collection System #3**

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**Statement of Cash Flows**  
**Year Ended December 31, 2004**

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 123,127
Payments to suppliers	(65,971)
Payments to employees	<u>(34,015)</u>
Net cash provided by operating activities	<u>23,141</u>

**Cash Flows from Investing Activities – Interest received**

268

**Cash Flows from Non-Capital and Related  
Financing Activities:**

Operating transfers out	<u>(9,875)</u>
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**Net Increase in Cash**

13,534

**Cash – January 1, 2004**

13,178

**Cash – December 31, 2004**

\$ 26,712

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$ 25,081
Adjustments to reconcile operating income to net cash from operating activities – Changes in assets and liabilities:	
Accounts receivable	134
Depreciation	3,441
Accounts payable	(4,543)
Accrued and other liabilities	<u>(972)</u>

Net cash provided by operating activities \$ 23,141



## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Wexford, Michigan (the County) established the Wastewater Collection System #3 (the System) to provide wastewater collection within the County under the administration of the County of Wexford, Michigan. The Wastewater Collection System #3 Fund (the Fund), an Enterprise Fund, separately accounts for the Wastewater Collection System #3, as is required by the County of Wexford, Michigan. The following is a summary of the more significant accounting policies followed in the preparation of the Fund's financial statements. These policies conform to accounting principles generally accepted in the United States of America.

**Reporting Entity**

In accordance with the criteria established by the Governmental Accounting Standards Board, the Wastewater Collection System #3, is considered an enterprise fund of the County of Wexford, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the County to significantly influence operations, the accountability for fiscal matters including the level of County financing and/or moral or legal responsibility for long-term debt. Therefore, the financial statements of the Wastewater Collection System #3 fund of the County of Wexford, Michigan is presented in the financial statements as an enterprise fund, which is an integral part of the financial reporting oversight unit of the County of Wexford, Michigan.

The Fund operates and maintains a sanitary sewer collection system for Haring Township (the Township). At present, the County has legal title to the sewer system, but the Township has capitalized the cost of the project as an asset in its sewer fund. The purpose of capitalizing the Fund in the Township's records is the provision in the lease contract that calls for the County to transfer ownership to the sewer system to the Township upon maturity of the bonds.

The accompanying financial statements reflect only the operation and maintenance of Wastewater Collection System #3. The Debt Service Fund and the long-term debt are maintained by the County and reported in the County's basic financial statements.

**Basis of Accounting**

The accrual basis of accounting is used by the Fund. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

**Cash Equivalents**

For the purpose of the statement of cash flows, the enterprise fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventories**

Inventories held by the System are not considered material and are not shown in these financial statements.

**Receivables**

All trade receivables of the System are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited property, which assures their eventual collection.

**Capital Assets**

All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the Fund consist of equipment items used to run the System. Depreciation on such capital assets is charged as an expense against operations on a straight-line basis.

**Compensated Absences (Vacation and Sick Leave)**

It is the County's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A portion of the sick pay, depending on department, and all vacation pay is eligible to be paid out when employees separate from service with the County. The sick and vacation pay that is eligible to be paid out when employees separate from service with the County is accrued in the government-wide financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The deposits of the Fund consist entirely of cash. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$26,712, which was fully covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable.

**County of Wexford, Michigan**  
**Wastewater Collection System #3**

**Notes to Financial Statements**  
**December 31, 2004**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligation of the State of Michigan or its political subdivisions, which are related as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board allows the County Treasurer to invest in all investments authorized by Public Act 20 of 1943, as amended.

The County of Wexford, Michigan's deposits and investments policies are in accordance with statutory authority.

**NOTE 3 - CAPITAL ASSETS**

The capital assets of the System are composed of the following:

	Balance January 1, 2004	Additions	Disposals	Balance December 31, 2004	Estimated Depreciable Life – Years
Capital assets being depreciated:					
Machinery and equipment	\$ 44,210	\$ -	\$ -	\$ 44,210	5-7
Less accumulated depreciation	<u>(27,917)</u>	<u>(3,441)</u>	<u>-</u>	<u>(31,358)</u>	
Net assets being depreciated	<u>\$ 16,293</u>	<u>\$ (3,441)</u>	<u>\$ -</u>	<u>\$ 12,852</u>	

**NOTE 4 - POST EMPLOYMENT BENEFITS**

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, one retiree is eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2004, the County collected approximately \$1,115 from retirees.

**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's basic financial statements. The County is required to contribute yearly a percentage of each eligible employee's salary as determined by MERS annually. The percentage for the year ended December 31, 2004 was 9.03%. Annual pension expense allocated to the System amounted to approximately \$1,868 for the year ended December 31, 2004.

**NOTE 6 - RISK MANAGEMENT**

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The System participated in the County's risk management program. The County has purchased commercial insurance for worker's compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.